

Multifamily Metro Outlook:

Phoenix - Q3 2023

Overview

- Multifamily fundamentals are cooling in Phoenix largely due to a surge in deliveries. Despite some of the strongest job growth in the nation, new supply has outstripped demand. As a result, the average vacancy rate of 7.3% in Q3 2023 is now 270 basis points above the pre-pandemic level in Q4 2019. Still more supply is scheduled to be delivered in 2023 likely leading to additional softening.

Market Strengths:

- While 14% of jobs remain in the housing sector, above the 10% national average, the economy has transitioned over the past 20 years to be more diversified. About 9.4% of jobs are in finance compared to 5.9% nationwide, and 16.9% of jobs are in the well-paying professional services sector compared to about 14.8% nationwide. While job growth in finance and insurance has slowed due to the increase in interest rates, scientific, professional and technical services jobs will grow this year according to Moody's.
- Phoenix has the third-highest rate of in-migration among metro areas with at least 1 million residents. Many come for jobs in the well-paying high-tech sector, dubbed the Silicon Desert. It now accounts for about 5.8% of employment, +0.3% above the national average. According to Moody's Analytics, KORE Power is working on a \$1.25 billion facility that is expected to be operational in 2024 and employ another 3,000 workers and Intel is continuing a \$20 billion expansion, with plans to hire more than 3,000 workers by 2024.
- On net, migration to Phoenix added about 63,000 residents in 2022, providing continued strong demand for all types of housing. In addition, the primary renting cohort, ages 20-34, makes up about 21% of the population. This cohort is expected to grow faster than the national average over the next 5 years aided by enrollment at Arizona State University

Market Weaknesses:

- Despite significant rainfall over the winter, water shortages and climate change remain problem. According to the City of Phoenix's water services website, the Colorado River water, which includes water from Lake Meade, supplies roughly 40% of the City's water. Phoenix does have water conservation measures including recycling nearly all its wastewater, which it uses in agriculture and energy production, among other things. It remains to be seen whether such measures will be sufficient.
- Investors have built to rent thousands of single-family homes in the West and East valleys and rehabbed less expensive single-family homes into rentals. This has influenced the inventory of single-family homes for sale, which remains low. Some would-be homeowners may leave the area to find markets with more affordable homes.
- Affordability in Phoenix has declined dramatically. The average home price has increased by 65% since Q2 2018. In addition, double digit rent growth in 2021 followed by over 4% rent growth in 2022 led to greater deterioration of rental affordability. While the average rent has declined slowly over the past three quarters, it would take a significant decline to improve affordability.

Multifamily Development:

- The pace of development is growing with an estimated 29,500 units underway as of Q3 2023, representing a 7.2% increase in inventory, up from 19,600 units as of Q4 2020. While about 17% of units underway are in Central Phoenix, development currently appears to be spread out around the metro. However, most of the new supply underway consists of expensive class A units, while there is a growing need for more affordable apartments.

Multifamily Outlook:

- Despite an anticipated job growth of nearly 2.4% in 2023, producing possible demand for more than 10,000 multifamily units, Phoenix may deliver over 18,000 multifamily units in 2023, creating a shortfall in demand of nearly 8,000 units. While ongoing job growth has limited the increase in the average vacancy rate so far, interest rates have risen, and there is the possibility of a recession in 2024 which could produce a large supply demand imbalance

Economic Outlook:

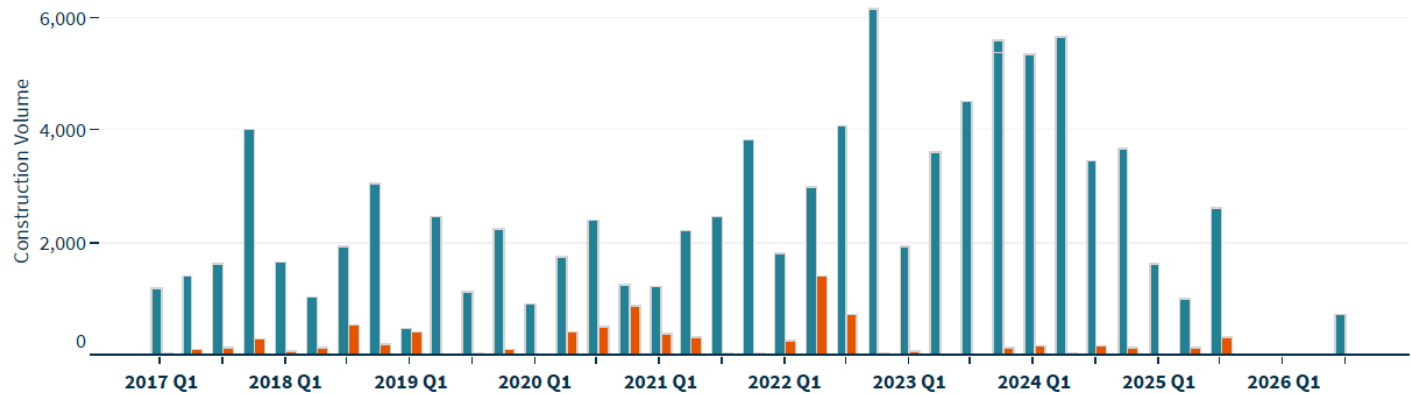
- Long-term, Phoenix is likely to remain one of the stronger economies in the country due to a pro-business environment and low living costs relative to other West Coast metros. This and the vast amount of available land should continue to attract both employers and population long-term. Even so, Phoenix will continue to have high cyclicalities due to the economy's dependence on investment and population inflows. In addition, it remains unclear what the long-term impact of climate change and water shortages will be.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

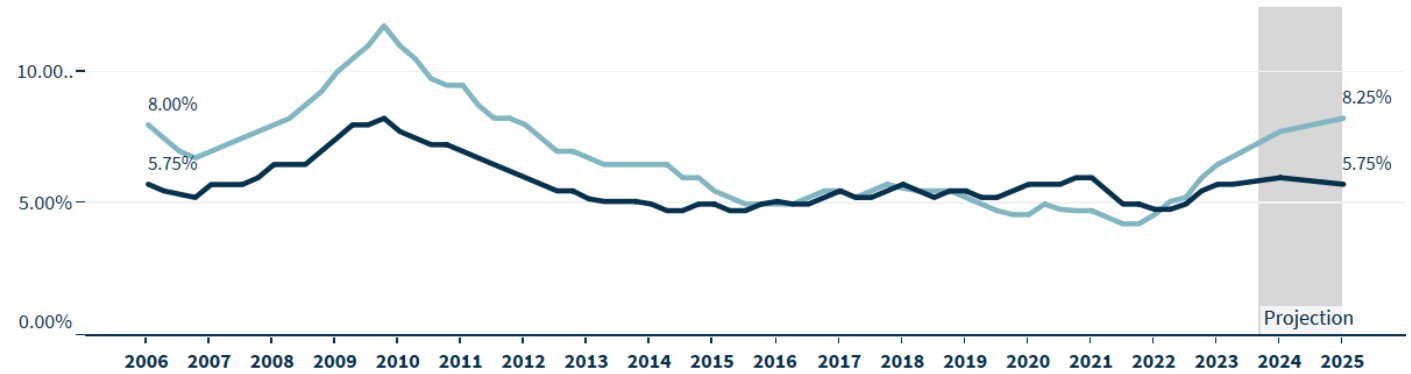
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Phoenix | National

Q3 2023 Vacancy Rate:

7.30%

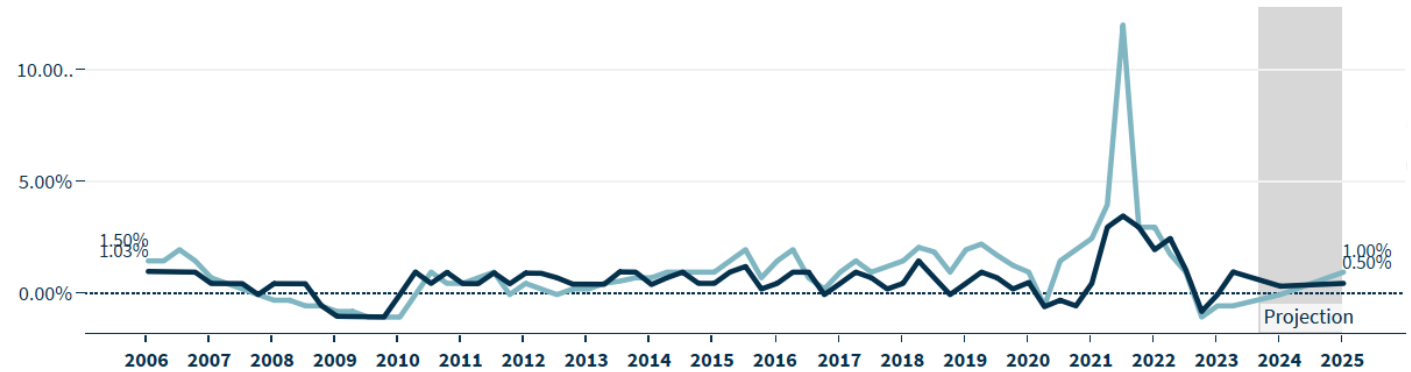


Asking Rent Growth

Phoenix | National

Q3 2023 Asking Rent:

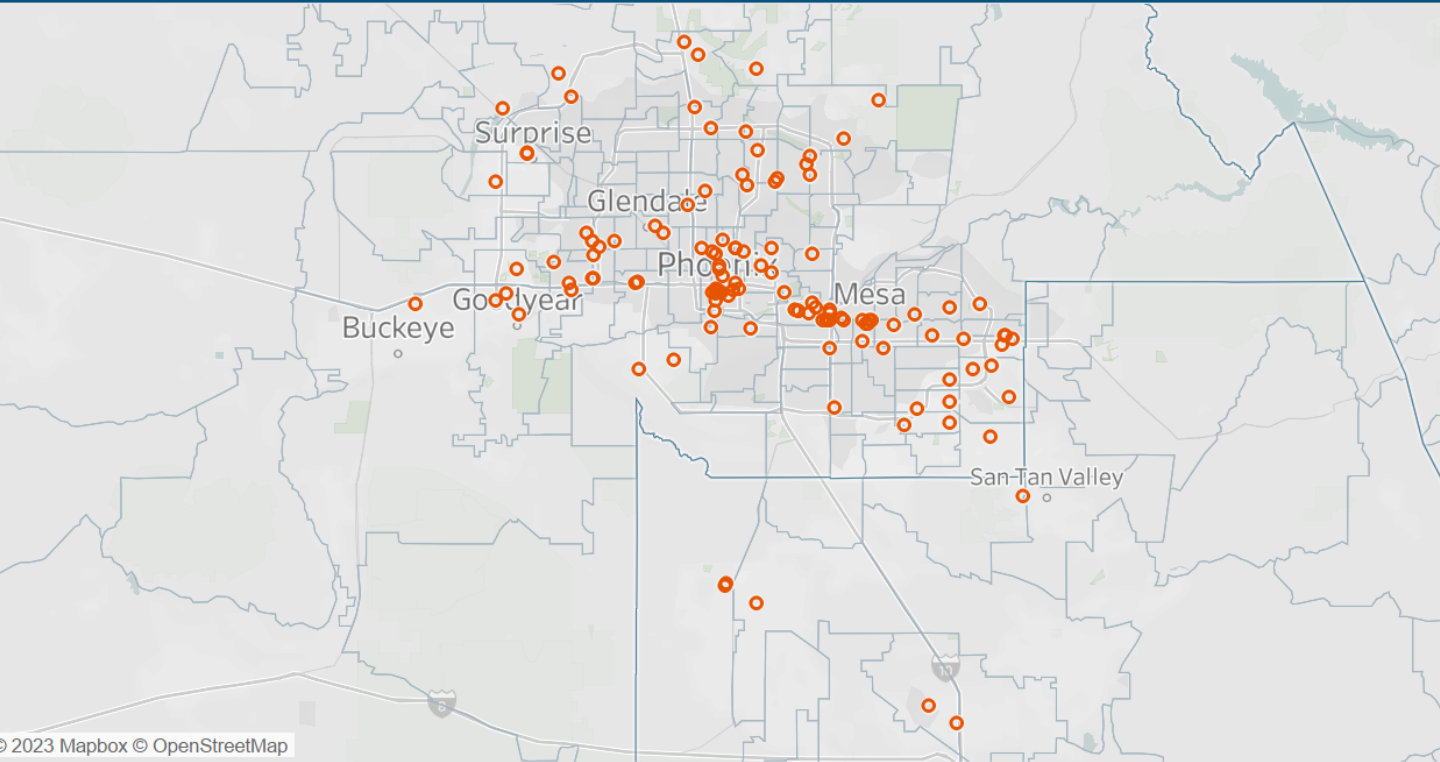
\$1,560



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Avondale/Goodyear/West Glendale	15	4,902
Central Phoenix	14	4,477
Chandler	1	420
Deer Valley	6	854
East Mesa	11	2,220
East Phoenix	4	430
Far West Phoenix	2	364
Gilbert	6	1,347
North Central Phoenix	8	1,468
North Scottsdale	5	1,481
North Tempe/University	12	3,930
Northeast Phoenix	5	1,282
Northwest Mesa	6	1,095
Northwest Phoenix	2	294
Peoria/Sun City/ Surprise	7	872
Pinal County	6	1,747
South Glendale	2	369
South Phoenix	4	705
South Scottsdale	1	260
South Tempe	1	200
Southwest Mesa	5	469
West Phoenix	1	297
Grand Total	124	29,483

Source: Dodge Data & Analytics SupplyTrack Pipeline



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Multifamily Economics and Market Research Team

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Sources Used

- Moody’s Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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